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Report Highlights:
Harvest is progressing throughout the country with a better quality crop expected this year. Post forecasts all grain production at 69 million metric tons (mmt), including 36.5 mmt of wheat and 15.8 mmt of barley. Exports have stopped as last year's supplies have dwindled and the new crop is not yet completely available. But, Post forecasts 6.2 mmt of exports, including 4 mmt of wheat and 2.2 mmt of barley for MY 2003.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Moscow [RS1]
[RS]

Table of Contents

Executive Summary

Production

Grain crop forecasts for 2003 vary from 65 million metric tons (mmt) to 75 mmt with the official forecast of the Ministry of Agriculture in the middle with 70 mmt. Post forecasts the total grain crop at 69 mmt, including 36.5 mmt of wheat and 15.8 mmt of barley. Southern regions of the Russian Federation started harvesting winter grains the end of June, later than in 2002, and yields are reported lower everywhere in the country. Rains that started in the beginning of July hampered harvesting in some territories of Krasnodar Kray and Rostov oblast (two of the largest grain producing regions of the country) and the official production forecast for these regions is 20-25 percent lower than last year. However to some extent lower on-the-field crop will be compensated by decreased losses of grain at harvesting, conditioning, and storing, and the reported bunker weight will be closer to clean weight. The lower crop will allow for better use of the limited quantity of farm machinery nation wide, although in Siberia, the shortage of good machinery is still being felt. The production situation is better on the territories of the former Black Earth Region and in the Northern territories of Volga Valley than in the Southern Federal District. The crop in Siberia is difficult to estimate but is forecast as average.

Regions

In Stavropol Kray by July 20, over 2 mmt was harvested, the majority of which was winter wheat (from 56 percent of the total sown area) and yields are reported at 2.5 tons per hectare (last year the average wheat yield in Stavropol Kray was 3.3 tons per hectare).

The harvest is finished in Krasnador Kray with 4.4 mmt harvested, approximately 2.8 of winter grain and 1.4 of spring.

In Rostov Oblast, total harvested area is forecast at 2.17 million hectares, including 1.07 million hectares of winter grains (last year winter grain area in Rostov oblast was 1.4 million hectares). Total harvested area will be at least 270,000 hectares less than last year and yields will be lower, thus winter grain yields are estimated at approximately two tons per one hectare (last year’s yields of winter wheat in Rostov Oblast were three tons per hectare). However, officials do not forecast a further decrease in yields and report that in some regions yields may even exceed last year’s level. The barley crop is expected to be better than wheat and production of cereals (buckwheat, millet) may be even higher than last year.

In Volograd, it is expected that 2.3 to 2.4 mmt will be harvested, a little less than the average for that regions. In Saratov, four mmt is expected to be harvested, a little more than last year as losses of winter grains were compensated by spring crops.

Quality

Quality is reported better than in 2002, proved by the first tests of threshed grain in Rostov Oblast. Of the first 160,000 metric tons of wheat Grain Inspection specialists examined, almost 70 percent is food quality, nearly 20 percent more than last year. Early results in Krasndar Kray are the same and Stavropol reports food quality wheat composes 88 percent of the total, higher than the last year and the best results among the regions.

Consumption

Food Consumption

With production of better quality wheat forecast this year, experts think the portion that is food grade will be higher. However, food consumption is not forecast to change. Most of the wheat that is consumed as food is consumed as bread and the quality of the wheat used to make the bread does not alter demand patterns. The quality of bread differs significantly between regions generally and this difference is not reflected in the price. Thus, any changes in quality are expected to follow this same pattern. According to market researchers, the average price of bread in many regions increased by twenty percent between March and June of this year, but this increase was the result of increased costs of production (mainly higher energy costs) rather than the quality of bread and this increase is not expected to significantly alter the level of food consumption.

Feed Grain Consumption

Post forecasts a decrease in feed wheat consumption due to higher prices for wheat in general, incentives to export, and a bumper sunflowerseed harvest. Much of what is fed will be on farm due to in kind payments to workers making exact feed number impossible to determine with precision. However, commercial feeding operations will have ample incentive to alter their feeding ratios to reflect higher grain prices in favor of cheaper substitutes.

Trade

Current Year

Again this marketing year, exports will be a function of price and Post forecast exports will decrease to 6.2 mmt, including 4 mmt of wheat and 2.2 mmt of barley. In spite of the lower crop, exports of grain will be pushed by higher international prices due to tighter global supplies, especially in the Ukraine. According to various reports, one metric ton of food quality class three wheat has reached approximately $150-180 in the Ukraine. The same grade wheat in Russia is still priced at about $100 per ton. Additionally, exports will also be stimulated by smaller crops in Moldova and some Eastern European countries because grain can be easily exported to these countries from Russia's neighboring Oblasts. There have also been some special deals set up by regional authorities. For example, Orlov Oblast has already started shipping grain to Moldova in exchange for fruits, vegetables and canned products. An expected 400,000 mt is rumored to Moldova in the upcoming MY from this oblast. Also according to various reports, 1.2 mmt of wheat has been promised to the Ukraine.

Below is a comparison of prices between various Russian points of origin and other major exporters. At the present moment Russian grain is priced out of the market by $10 to $15 due to several reasons. First, grain supplies have dwindled at the major exporting locations like Rostov and Krasnador Oblasts. Secondly, the media coverage of the smaller crops in Russia and the Ukraine (which could result in possible shortages of bread and higher prices) is widespread over the country. Those farmers who are able to hold onto last years' crop are doing so in hopes of selling at even higher prices. Also, rumors of Ukrainian buyers seeking to forward contract Russian wheat before it's harvested are also creating artificially high prices. Lastly, the efforts of some Oblasts to curtail exports are having an effect.

Origin	FOB Price	Price Plus Freight Egypt
Russia- Don River	$150	$172
Russia- Novorossiysk	$159	$173
Russia- From Ukrainian Ports	$157	$171
France	$140-$145	$155-$160
US	$135-$140	$150-$155

Post thinks the above-mentioned conditions will lessen at harvest and there will be a window for Russian exports because of several factors. One is that many farmers will be unable to hold onto their grain due to their debt and lack of financing options. These farmers will need to sell in order to be able to start planting again. This will cause the price in many areas to drop and some traders will be able to acquire grain at a cheaper price. Additionally, many farmers on larger enterprises will get paid in kind for their labors and cash loaded traders will be very tempting. Additionally, Ukrainian ports are offering very competitive rates because of the expected deep drop in Ukrainian exports. In short, a window for Russian exports will open up, but how long it remains open will depend on how quickly the domestic price begins to rise again balanced with the final crop sizes of other major suppliers and how high the world price becomes. But, Post believes 4 mmt of wheat and 2.2 mmt of barley is possible.

Last Year

Exports of grain continued in May and June and total exports in MY 2002 reached 17 mmt, including: 13 mmt of wheat, 216,000 tons of wheat flour, 3.2 mmt of barley, 217,000 tons of rye, 10,000 tons of corn, 5,000 tons of oats, and 7,000 tons of rice. Country breakouts are not yet available, so Post will include an updated trade matrix in its next report.

Russian grain imports decreased by nearly 40 percent and by beginning of June 2003 Russia had imported less than 200,000 metric tons of wheat, 19,000 tons of wheat flour (equivalent of 27,000 tons of wheat), 130,000 tons of barley, and 95,000 tons of corn. In January through May, 223,000 metric tons of rice was imported- 45 percent of all grain imports and the highest amount for the last ten years. To some extent these high imports of rice were stimulated by the long awaited introduction of specific rice imports tariff with a minimum declared value component. In MY 2003 Russia could increase imports (or transit – re-export) of grain from Kazakhstan.

Stocks

The Russian Grain Union reports that by the beginning of MY 2003 carry over stocks amounted to approximately eight mmt, including four mmt of food quality wheat. MinAg estimated stocks for the same time at 10 mmt.

Policy

There are no significant changes in the present policy of the government in the grain sector. Moreover, any additional outlays from the budget are not envisaged until the beginning of new financial year, which starts on January 1, 2004. But some see the small achievements of the MinAg like the Presidential Decree on farmers' fees and penalties forgiveness as well as declarations that the government will support food quality grain prices at minimum 3,000 rubles per one ton as support.

Marketing

The expected lower crop in both Russia and the Ukraine has pushed domestic grain prices up and some Oblast governors and Kray administrations are trying to use non-official closure of their borders to exports to keep bread prices from increasing further. The Minister of Agriculture of Rostov oblast announced that prices of the newly harvested grain will not decrease below 3,000 R per ton (approximately 30 Rubles to the dollar), that these prices will be kept by “economic measures”, and that the those managers who sell grain at a lower price will be deemed “deceivers” by the Oblast MinAg.

According to the same Minister, the administrations of three Southern regions – Rostov oblast, Stavropol Kray, and Krasnodar Kray agreed to maintain food quality wheat price at 3,000 Rubles to 3,200 Rubles per ton and feed quality wheat prices at 2,000 Rubles to 2,200 Rubles per ton. The Krasnador Kray administration declared it would not allow shipments of grain out of the Kray until the regional reserves are filled and promised to provide a 200-300 Ruble subsidy to the price of food wheat. These measures have already caused an open letter by the President of the Russian Grain Union to Minister Gordeyev to express concerns about these restrictions to free trade in the domestic market. However, there is no codified legal basis for these measures, so no basis upon which to challenge them, therefore, making change difficult. Some experts believe these measures will naturally dissipate when harvest is complete and the price drops because Oblast officials will not have the same incentive to maintain them

Prices

Rumors about a possible deficit and mass media speculation and publicization about increasing bread prices had for the most part ceased at the beginning of July. Several factors influenced this situation: carry-over stocks were reported at 8.0 mmt to 10.0 mmt, the harvest is progressing with better-than-expected weather in the European part of Russia, current high prices have stimulated farmers and local authorities to try to get as much grain as possible from the fields in spite of lower yields, and MinAg has declared that it will support price stability (although no clear plan has yet to be developed). The use of grain sales or purchase interventions has proved to be a slow and clumsy process, but the existence of the State Intervention Reserve adds to the stability of the grain market and by the beginning of July discussions over government sales or purchases of grain discontinued with no definite date to sell the reserves.

At the present moment, market prices for food quality wheat vary from 3,000 Rubles to 3,500 Rubles depending on the quality of grain, place, and terms of delivery. Given that only a small portion of the wheat crop is actually evaluated and priced according to market supply & demand forces, it seems as if a non-official consensus has been reached between producers and flour-millers on this price corridor. Minister Gordeyev declared on July 20 that this year the price of one ton of food quality wheat will be around 3,000 Rubles and that level will meet the balanced interests of producers and consumers. He remarked that if this balance were broken, the government would find ways to regulate prices. However, no definite plans for doing this have been discussed and most experts believe it to be political posturing. Minister Gordeyev also called for limiting what he termed the “trade additional charge” for bread in the retail chain by ten percent and stabilizing energy costs, which recently influenced the bread prices more than the price of grain (the farmers’ share in the bread price is only twenty percent). During a conference at the end of June, flour millers acknowledged that prices had reached an optimal level of 3,500 Rubles per ton (milling quality wheat) and that there is no necessity to open the State grain reserves. However, the fight over grain prices may renew when a more precise estimate of the new crop is possible and traders begin to influence prices more.

The idea of a grain exchange, very popular in the beginning of nineties as a solution to the problems of an emerging market, is emerging again. The Government grain purchase interventions conducted last fall have stimulated some regions to start some exchange trade activities. However, the same impediment still exist- traders claim it's the Government who wants the exchange, not them, and so they don't participate.

The non-market transactions or "grey" market transaction, according to some estimates, amount to one third of the market and traders are not very interested in transparency overall. Specialists believe this to be one of the factors why previous attempts to create an exchange in Southern Russia failed, although grain trade is very active in these regions. According to the State Statistical Board of Stavropol Kray, the average grain prices in 1999-2001 fluctuated between 1,260 Rubles to 1,790 Rubles per ton, while the prices at grain commodity exchange varied from 2,400 Rubles to 3,000 Rubles per ton at the same time. However, according to official statistical data, less than one percent of marketed grain was traded through exchanges and the exchange prices were not able to influence average grain prices (RG, July 1, 2003).

Commodities

Table 1. PSD, Wheat, 1,000 Metric Tons

Wheat					(1000 HA) (1000 MT)	
	2001 USDA Official [Old]	Revised Post Estimate [New]	2002 USDA Official [Old]	Estimate Post Estimate [New]	2003 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	23800	23800	25700	25700	21500	21500
Beginning Stocks	1400	1400	6479	6479	3729	5339
Production	46900	46900	50550	50560	34000	36500
TOTAL Mkt. Yr. Imports	629	629	300	300	1000	1500
Jul-Jun Imports	629	629	300	300	1000	1500
Jul-Jun Import U.S.	48	48	0	0	0	0
TOTAL SUPPLY	48929	48929	57329	57339	38729	43339
TOTAL Mkt. Yr. Exports	4372	4372	13000	13000	2000	4000
Jul-Jun Exports	4372	4372	13000	13000	2000	4000
Feed Dom. Consumption	14000	14000	17500	15000	12500	13800
TOTAL Dom. Consumption	38078	38078	40600	39000	35500	37700
Ending Stocks	6479	6479	3729	5339	1229	1639
TOTAL DISTRIBUTION	48929	48929	57329	57339	38729	43339

Table 2. PSD, Barley, 1,000 Metric Tons

Barley					(1000 HA) (1000 MT)	
	2001 USDA Official [Old]	Revised Post Estimate [New]	2002 USDA Official [Old]	Estimate Post Estimate [New]	2003 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	10200	10200	10250	10250	10500	10500
Beginning Stocks	1529	1529	4387	4387	4587	5037
Production	19500	19500	18700	18700	15500	15800
TOTAL Mkt. Yr. Imports	201	201	200	150	200	200
Oct-Sep Imports	192	192	200	150	200	200
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	21230	21230	23287	23237	20287	21037
TOTAL Mkt. Yr. Exports	2593	2593	3200	3200	2000	2200
Oct-Sep Exports	2664	2664	3200	3200	2000	2200
Feed Dom. Consumption	9850	9850	10700	10500	12700	12900
TOTAL Dom. Consumption	14250	14250	15500	15000	17500	17350
Ending Stocks	4387	4387	4587	5037	787	1487
TOTAL DISTRIBUTION	21230	21230	23287	23237	20287	21037